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Topic- Capitalism Versus Socialism
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Capitalism vs Socialism

The main difference between capitalism and socialism is the extent of government intervention in the economy.

- *A capitalist economic system is characterised by private ownership of assets and business. A capitalist economy relies on free-markets to determine, price, incomes, wealth and distribution of goods.*
- *A socialist economic system is characterised by greater government intervention to re-allocate resources in a more egalitarian way.*

capitalism-vs-socialism

There are also different aims of the economic systems.

Equality

- **Capitalism** is unconcerned about equity. It is argued that inequality is essential to encourage innovation and economic development.
- **Socialism** is concerned with redistributing resources from the rich to the poor. This is to ensure everyone has both equal opportunities and in some forms of socialism – equal outcomes.

Ownership

- **Capitalism** – Private businesses will be owned by private individuals/companies
- **Socialism** – The state will own and control the main means of production. In some models of socialism, ownership would not be by the government but worker co-operatives.

Efficiency

- **Capitalism**- It is argued that the profit incentive encourages firms to be more efficient, cut costs and innovate new products that people want. If firms fail to keep

up, they will go out of business. But, this business failure allows resources to flow to new more efficient areas of the economy. Something known as 'creative destruction'

- **Socialism**- It is argued that state ownership often leads to inefficiency because workers and managers lack any real incentive to cut costs. One joke under Soviet Communism was 'They pretend to pay us. We pretend to work.'

Unemployment

- In capitalist economic systems, the state doesn't directly provide jobs. Therefore in times of recession, unemployment in capitalist economic systems can rise to very high levels, e.g. 20% + in Great Depression
- Employment is often directed by the state. Therefore, the state can provide full employment even if workers are not doing anything particularly essential. Socialism is sometimes associated with Keynesian demand-management – attempts to stimulate the economy in times of slump. Keynes himself was not a socialist.

Price controls

- Prices are determined by market forces. Firms with monopoly power may be able to exploit their position and charge much higher prices.
- In a state-managed economy, prices are usually set by the government this can lead to shortages and surpluses.